

**Department of Revenue**  
**Impact Statements in Response to**  
**House Finance Subcommittee Budget Proposals**

**Date: April 2, 2003**

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The House Finance Subcommittee proposes a department wide unallocated reduction of General Funds of \$1,300,000, which is used to fund the new Alaska Natural Gas Development Authority.

<b>Program:</b>	<b>Dollar</b>	<b>Fund</b>
Tax Division	<b>Amount(s):</b>	<b>Source(s):</b>
	(\$1,300,000)	General Fund

**Impact Title:** Eliminate the enforcement and auditing functions for some state tax types and eliminate all enforcement functions for charitable gaming.

**Impact Analysis:**

Eliminate the enforcement and auditing functions for some state tax types

The department is extremely limited in where General Fund reductions can be found due to the functions of the department and the size of its General Fund budget. The majority of the \$8,296,800 in General Funds in the department are in the Treasury and Tax divisions. Our investment staff is responsible for billions of dollars in public funds, and the oil and gas tax and royalty audit staff collects hundreds of millions of dollars a year in state revenues. In order to minimize the impact and do the least damage, we would take the reduction in our smaller tax types. By imposing such a substantial budget reduction on only the smallest revenue sources administered by the department, we would hope to minimize the eventual loss to the treasury.

The department would eliminate all enforcement and audit functions for the following tax types to achieve \$700,000 in General Fund reductions for Fiscal Year 2004:

<b>Tax Type</b>	<b>FY02 Revenue</b>
Dive Fishery Management Assessment Tax	\$192,000
Mining License Tax	\$466,000
Telephone Cooperative Tax	\$1,352,000
Electric Cooperative Tax	\$1,786,000
Salmon Marketing Tax	\$1,986,000
Seafood Marketing Assessment	\$2,698,000
Estate Tax	\$3,117,000
Salmon Enhancement Tax	\$3,701,000
Regulatory Cost Charges (RCA)	\$5,885,000
Fishery Resource Landing Tax	\$7,223,000
Alcoholic Beverages Tax	\$12,889,000
Fisheries Business Tax	<u>\$25,292,000</u>
Total	\$66,587,000

The total cost to the Tax Division of collecting, enforcing and auditing these tax types — the 12 smallest tax types administered by the division — was \$907,000 in Fiscal Year 2002. The tax programs generated \$66.6 million in revenue in Fiscal Year 2002, with much of that money shared back to municipalities. Certainly, the state would continue to receive payments from taxpayers after the division ceased all enforcement and audit efforts, but it is reasonable to assume that over time the revenues would fall as taxpayers realized no one was checking their returns.

The division estimates it could save \$700,000 a year in General Funds if it ceased all audit and enforcement functions, and merely accepted the returns and payments, provided information to taxpayers and municipalities, and maintained the files.

Eliminate all enforcement functions for charitable gaming

The Tax Division would trim an additional \$600,000 from its budget in Fiscal Year 2004 by eliminating all enforcement functions at the Charitable Gaming Section, which collects the state tax on pull-tab, bingo and other charitable gaming operations. The division spends about \$800,000 a year on direct expenses associated with the Charitable Gaming Section, which generates about \$2.5 million per year in state revenues. A \$600,000 reduction in the section's operating budget would still allow the minimal remaining staff to issue licenses as required under statute and to accept payments and tax returns but would put an end to all enforcement work on tax collections and ensuring adherence to expense and prize limits in the state's charitable gaming laws.